

# PM: Promote domestic sources of growth

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The government wants the private sector to spearhead the country's economic growth and build up the domestic sector. The government, which has been pump-priming the economy for the past five years, will play the role of facilitator.

This comes as little surprise after the slowdown in external demand last year took a toll on Malaysia's manufacturing sector. Exports of manufactured goods — 60 per cent of which are electrical and electronics (E&E) products — make up about 80 per cent of the country's total exports.

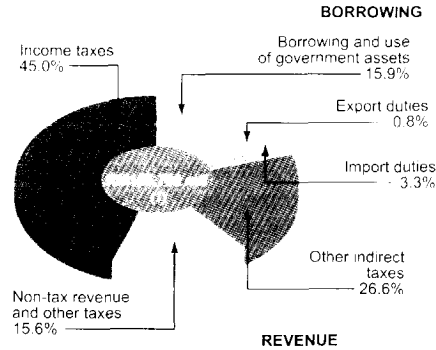
The slump in global demand for computers and other information and communications technology products last year put a big dent on external trade. Monthly exports contracted for a full year only began to see growth in March this year. For the whole of last year, exports plunged by 10.6 per cent.

Meanwhile, the domestic sector has shown more resilience. Domestic-oriented industries' share of the manufacturing production index remained in positive territory and grew by 3.3 per cent last year while export-oriented industries' share of the index declined by 6.7 per cent in the same period.

The domestic sector was largely responsible for the country's relatively strong gross domestic product (GDP) growth of 2.5 per

## The federal government budget 2003

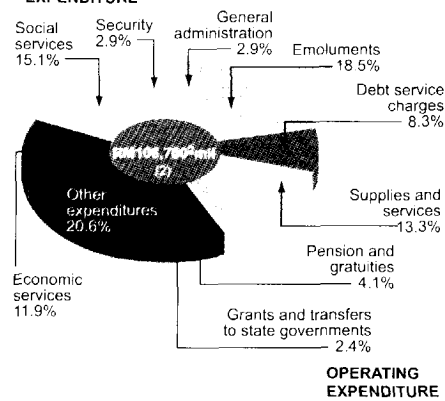
### Where it comes from



(1) Includes revenue, borrowing and use of government assets  
(2) Excludes transfers

### DEVELOPMENT EXPENDITURE

### Where it goes



cent in the first half of this year, according to the *Economic Report 2002/2003*.

Small wonder then that the government is bent on striving for a better balance in its growth strategy, putting more emphasis on the domestic sector given the prevailing uncertainty over external conditions.

"The nation's growth has long been heavily reliant on foreign investment and trade, which are subjected to volatilities in business cycles of our major investment and trading partners. The time has come for us to reengineer our growth strategies towards reducing this high dependence and embark on initiatives to vigorously explore and promote our domestic sources of growth," says Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad in the Preface of the report.

The economy, which only managed to grow by 0.4 per cent last year, is expected to strengthen and register GDP growth of 4.0 to 5.0 per cent this year, and 6.0 to 6.5 per cent

next year, the report says.

### **Domestic sources of growth**

What are these domestic sources of growth? Top on the list is the services sector, with emphasis on the tourism, education, transport and health sub-sectors. The sector saw the strongest growth of 5.7 per cent last year compared with the other sectors. It is expected to expand by 5.3 per cent this year and 5.9 per cent next year.

Meanwhile, the agriculture sector will continue to be cultivated as the third engine of growth, the report says. With weather conditions anticipated to be clement next year, palm oil production is expected to increase. So is yield per hectare, thanks to the cultivation of high-yielding breeds of oil palm, rubber and cocoa. As a result, the sector is expected to grow by 1.1 per cent this year and 3.4 per cent next year.

The future of the manufacturing sector is

also likely to be brighter, the report says, citing gradual improvement in global demand for E&E products. Global chip sales in July grew by 8.0 per cent from a year earlier, the first annual increase since February last year, according to the Semiconductor Industry Association (SIA).

"The July data and the year-on-year increase confirm that a moderate but sustainable recovery will continue, putting us on track for 7.0 to 9.0 per cent sequential growth in the third quarter," says SIA president, George Scalise, in a press statement.

SIA projects that global chip sales will grow by 3.0 per cent this year before accelerating to growth rates exceeding 20 per cent in both 2003 and 2004. Such prospects are good news to Malaysia's E&E-dominated manufacturing sector and will also benefit support industries such as plastics, chemicals and fabricated metals and machinery, the *Economic Report* says.

The sector, which contracted by 6.2 per cent

last year, is expected to recover and grow by 5.1 per cent this year and 8.5 per cent next year.

The construction sector, meanwhile, will continue to benefit from ongoing public projects like the Bakun Hydroelectric Dam, the development of double-tracking rail and the prevailing demand for affordable housing. The sector is expected to grow by 3.8 per cent this year and 4.5 per cent next year.

While public investments may continue to pump-prime the economy, much of the driving force will be shifted to private-sector players in the coming year. "They must step up investments, venture into new development frontiers, seek new markets, produce world-class products and strive to sharpen their competitive edge," says Mahathir in the Preface.

The government, meanwhile, will try to facilitate these private-sector initiatives by providing the necessary infrastructure and incentives as well as administrative support

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"to ensure a more conducive and cost-competitive business environment", he adds.

Economists think the shift of emphasis to the private sector is only to be expected. "The government wants to consolidate its deficit spending to eventually meet its Eighth Malaysia Plan target of operating in a surplus by 2005," says Lee Heng Guie, economist at Hong Leong Bank (HLB).

"But for now, the government still needs to pump-prime," he says.

Although the deficit spending next year will be the sixth year in a row, it is expected to maintain the narrowing trend. The federal government deficit, which has been shrinking since last year, is targeted to narrow to RM16.8 billion or 4.7 per cent of GDP this year and RM14.9 billion or 3.9 per cent of GDP next year.

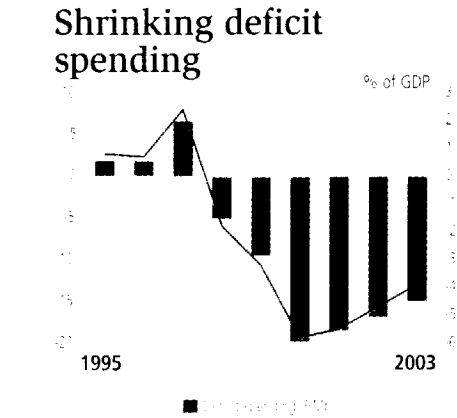
The moderate expansionary stance is still needed to support growth momentum in the wake of a weak global recovery, the *Economic Report* says.

The reduced deficit is made possible with the improved economic performance, higher revenue collection and a more active private sector.

### Banking on consumer and business spending

Following last year's contraction of 3.0 per cent, private expenditure is expected to rebound by 5.1 per cent this year and 9.0 per cent next year.

This will be led by private consumption, estimated to account for more than 46 per cent of GDP. Private consumption fuelled by consumer spending has held up well during the



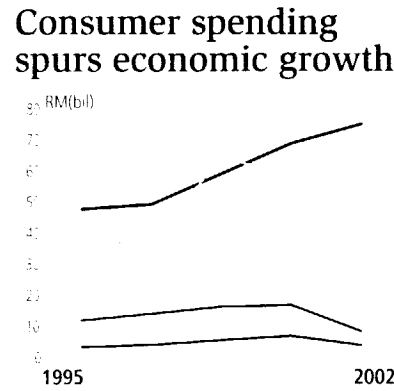
\* Figures for 2002 and 2003 are estimates

slump last year, growing by 2.8 per cent when private investment plunged 19.9 per cent. Private consumption is projected to grow by 5.9 per cent this year and 7.6 per cent next year.

An environment of subdued inflation and full employment is expected to encourage further consumer spending. The inflation rate is estimated to be at 1.9 per cent this year while the unemployment rate is expected to ease marginally to 3.5 per cent this year from 3.6 per cent last year.

While consumer spending is projected to see a gradual climb, private investment, on the other hand, is expected to grow by leaps and bounds — from 1.8 per cent this year to 14.4 per cent next year.

Economists think the jump is rather ambitious, even given the incentives provided to businesses. A conducive environment that would encourage private investment would



\* Figures for 2002 are for the first half of the year

include, in addition to tax incentives, a clearer and better-administered taxation procedure, improved corporate governance and less red tape, says Lee of HLB.

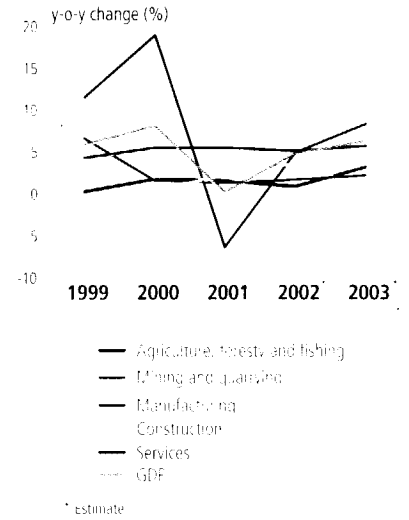
"These are important if you want the private sector to make a big comeback," he says.

Still, incentives alone may not be enough to spur private investment. "Bear in mind that there is still excess capacity in some industries," he adds.

Lee Soo Kai, economist at OSK Securities, concurs. "With the current rampant over-capacity globally, the lack of pricing power and the hollowing-out to China, I would say it is quite difficult to achieve [the 14.4 per cent growth next year]," he says.

Lee points out that the issue isn't so much the need for incentives but more of confidence

### Gross domestic product by industrial origin (in 1987 constant prices)



\* estimate

and end-demand. "With the pick-up in the end-demand and hence pricing, companies are definitely more willing to invest," he says.

It remains to be seen then whether the private sector will indeed pick up the gauntlet to play a leading role in spurring economic growth. Given this scenario, and considering the prevailing uncertainty over the strength of the US-led economic recovery and concerns about a possible attack on Iraq, economists reckon the report's GDP growth target of 6.0 to 6.5 per cent next year is rather ambitious. **E**